



April 27, 2012

Shoshana M. Grove
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001

Re: Docket No. MT2011-2

In accordance with Commission Order No. 721, issued April 28, 2011 in Docket No. MT2011-2, the Postal Service presents the following data collection report on the market test for Gift Cards, for Quarters 1 and 2 of FY 2012.

From October 1, 2011 through March 31, 2012, 131,138 gift cards were sold, for total revenues of \$671,406.10. After completing revenue sharing payments, net revenue was \$490,126.45. Only open loop cards are being sold. In the offices that sell both gift cards and greeting cards, 14.3 percent of the gift cards were sold with greeting cards. The Postal Service believes that a high percentage of the gift cards sold along with greeting cards were mailed. Moreover, 72 percent of the transactions involving gift cards included the sale of other postal items, which also might indicate that the gift cards were mailed.

During this reporting period the Postal Service collected data from a survey of gift card purchasers at Post Offices. From mid-November to mid-January, gift card purchasers were encouraged to complete a survey inquiring whether the gift card was or was expected to be mailed. Moreover, they were asked about other mail that might be generated from their gift card purchase. The Postal Service found that about 52 percent of the purchased gift cards were, or were expected to be, mailed. Moreover, customers expected that about 46 percent of the gift cards would generate a mailed thank you card. Finally, the gift cards are expected to be used for some online purchases, generating about 23 packages for every 100 gift cards purchased; some of these packages will be sent using the Postal Service. Thus, every 100 gift cards purchased can be expected to generate more than 98 pieces of mail.

A separate survey of a representative sample of the general gift card purchasing population asked about their reaction to the Postal Service's gift card offering, and their mailing practices with respect to gift cards purchases (mostly at nonpostal locations). This survey found that, among customers who purchase gift cards, about 16 percent were mailed. Thus, gift card purchasers at Post Offices are much more likely to mail their gift cards than gift card purchasers elsewhere.

The Postal Service is undertaking several measures in an effort to draw conclusions concerning the transaction costs associated with selling gift cards. Various proxies are being researched and investigated; so far none of them has proven to be closely related to the activities of selling gift cards. The Postal Service also has attempted to study window transaction activities for

selling gift cards, but only a handful of transactions were observed since the launch of the product. There were fewer than 15,000 transactions during FY11. Even during the FY12 holiday season, it was difficult to find and measure gift card window transactions, because they were spread among many retail locations. It will be time consuming and costly to try to locate and measure more transactions in the future, unless the product dramatically increases its volume.

The market test has helped to validate the use of and interest in gift cards. But so far, it is inconclusive on determining if the product is covering its costs. With that said, however, looking at the transaction times for the small number of transactions observed suggests that the product revenue is covering its costs. Even using the longest transaction time possible from the 2005 window transaction study (for Registered Mail), the gift cards are close to breaking even. Since it is highly unlikely that a gift card transaction is as complicated as a Registered Mail transaction, it is safe to assume that the program is not losing money. As noted above, moreover, we are finding that most gift cards transactions are done in conjunction with the purchase of other postal items, which should limit the transaction cost for gift cards.

Sincerely,

David H. Rubin
Attorney